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The Role of Institutions in Economic Development: The Case of Iran

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Abstract: This article examines the role of institutions in economic development from a new perspective based on the social contract between the government and the individuals in any society. The basic element in this social contract is to improve the living standards of all the members of society, as it is impossible to imagine that a rational society would vote for the deterioration of the well-being of its members. Meanwhile, the laws enacted by the governments disrupt economic activities at times and create rent for some interest groups in society. In this regard, the necessity of forming institutions to observe the element of justice in economic and financial laws is revealed. Therefore, the role of private sector associations in forming collective bodies gains further significance. We also discuss the role of private sector associations in Iran in formulating rules, regulations, and laws.

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1 Introduction

There is a wide discussion on the causes of differences in economic performance around the world. A significant body of literature has argued that institutions are the fundamental causes of differences in economic development. Institutions are formal and informal constraints affecting investment in physical and human capital. They consist of not only formal, state-order rules, but informal, private-order beliefs, norms, and conventions. Institutional economics goes beyond the scope of traditional micro and macro environment analysis and argues that the efficient operation of the market requires more than just setting the right prices and allocating resources in right proportions. Institutional economics stresses the crucial role of institutions in economic performance. It has been argued that factors such as innovation, economies of scale, education, and human and social capital accumulation are not the causes of growth and development, but the representatives of growth itself, and that political and economic institutions are the fundamental causes of differences in economic development.

It has been acknowledged that the market will not function effectively unless the institutions (both public and private) form an environment that fosters productive action. Institutions are defined as "the humanly devised constraints that shape human interaction" and "the rules of the game in society" (North, 1990). They are the "non-technologically determined constraints that influence social interaction and provide incentives to maintain regularities and behavior" and "are complemented by self-enforcing constraints generated through interactions within these rules" (Greif, 1998).

North (1994) explains that institutions consist of formal constraints (rules, laws, and constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics. Greif (2000) defines institutions as "a system of social factors - such as rules, beliefs, norms, and organizations - that guide, enable and constraint the actions of individuals, thereby generating regularities of behavior". Hall and Jones (1999) define social infrastructure as "the institutions and government policies that determine the economic environment within which individuals accumulate skills, and firms accumulate capital and produce output".

In a general review of the related literature, we find that empirical studies are proving that institutions have a positive effect on economic growth (Nawaz, 2015; Langlois, 2017), albeit without illuminating the theoretical mechanism by which institutions affect economic growth - as underlined by Li, Chu, and Gao (2020). Some economists have recognized the role played by institutions in investing in human capital, which affects economic growth. There are also other perspectives; for example, the degree of marketization, the amount of foreign investment (Aisen and Veiga, 2013; Krammer, 2015), and informal institutions (Putterman, 2013). I wish to contribute to this literature by recognizing the role of institutions in the economic development in terms of improving the living standards of individuals. In social contracts between the government and the individuals of a society, the principle of improving the living standards is a fundamental one and a prerequisite for the legitimacy of any institution, including the government and the market. All institutions existing in society shall be utilized to prevent the government from reducing public welfare.

2 The Necessity of Institutions

The role of institutions has become one of the most popular research areas in development economics over the last 10-15 years. Influenced by the broader revival of interest in institutions in economics, represented by the rise of New Institutional Economics in the 1980s, institutions started gaining popularity by the early 1990s as an explanation of international differences in economic development. However, as of the late 1990s, institutions have moved to the center stage in the debate on economic development. The role of institutions in decision-making may be considered from two points of view. The normative approach explains what the institutions should do, while the positive approach investigates what the institutions actually do. When these two approaches fall apart, the process of decision-making diverges from its optimum path. Given this, it is essential to understand both positive and normative approaches to the role of institutions in the process of decision-making. From a theoretical point of view, the discussion regarding the role of institutions in the process of decision-making is, in fact, one about the rights of individuals and the legitimacy of their preferences in the community. Along this line of approach, measuring the role of economic approaches in fulfilling individual preferences in society becomes very important. This denotes an association between the rights of individuals and the ideology of the community.

From a classical point of view, any assessment of the preferences should be carried out within the framework of utility maximization. Given the utility of all items, one may rank each case. Hayek (1960), Rawls (1971), and Sen (1999) each explain this point clearly in their writings. They all agree that liberty and freedom are ultimately a clear choice for all individuals in the process of development. However, the utilitarian views underestimate the importance of this preference. Hence one might come across cases where the adoption of utilitarianism would lead to the underestimation of liberty (Brandt, 1984). Regarding freedom as a central point of economic development, Amartya Sen (1999) considers economic development as a process where people feel they are free in various aspects, including the freedom to avoid poverty, the freedom to escape shorter life and to choose longer life and better living standards, and the freedom to access all types of education. The choices based on the above-said criteria should lead to the empowerment of human beings. This means that all economic policies should aim at enhancing the mentioned choices and reducing exclusion and deprivation to the minimum possible level. The basic freedom that becomes available to individuals during development includes the availability of political rights, the access to economic facilities, and the attainment of equal social opportunities, as well as obtaining transparency in behavior and enjoying a global and widespread social protection and safety net. All development processes should help individuals to attain a quality of life as close as possible to the standards stated above (Vitola and Senfelde, 2015).

3 State, Government, and the Standards of Living

No matter what the nature of the State and the Government is, the tie between the Government and the Society is a social contract whereby all those who sign it, agree to lose some of their individual rights, hoping to gain more in other directions. Any evaluation of the net gains of the individuals would mean an evaluation of the desirability of the social contract. Through the terms of the contract, each gives over his or her person to the general will, becoming, thereby, a part of the social whole. Since, according to Rousseau (1958), this contract is between equals and is common to all, one becomes a part of the social body while obeying nothing else but one's own will. By giving ourselves to all, we relinquish our natural freedom to receive liberty in exchange. Through the contract, we achieve conventional or political freedom concerning to others and yet are as self-determining as before (Hiley, 1990). According to Rousseau, only when humans fail to obtain benefits from the existence of a society as individuals, will they be able to move along to establish such a civil society. This means that society should be a means of attaining excellence that would not be reached by just individuals (Rousseau, 1958). Along the same line of argument, a free society would be formed on a legal framework and a collective identity would come into being.

In short, the mere fact that a government is established should mean that the individuals living under such a government may enjoy a level of welfare and well-being that they could not otherwise attain. All institutions established by the collective identity of the government should be protected by it and targeted towards the enhancement of the welfare of the individuals. When this meaning of government is accepted, all the shortcomings and misunderstandings mostly observed would be removed. As an example, considering privatization and the discussions regarding the optimum approach to privatization, the defenders of such an approach claim that the presence of the government in economic activities would reduce market efficiency. Hence to attain the desired market efficiency, it is essential to remove the government from the market. On the contrary, the defenders of the role of the government claim that privatization is wrong as it leads to the denial of justice. Given that for the sustainability of society, some sort of rule of justice should prevail, it is essential not to allow the market mechanism to act freely. If, however, the new approach explained above is adopted, the market mechanism would be considered as one of the essential tools used by society to help individuals act in the direction of the public interest. At this stage, the structural inconsistency between the market and the government that existed in the orthodox approach disappears entirely. A closer look at the problems related to either the market mechanism or the government actions show that neither of these is inherently dependent on either the market mechanism or the public systems (Reis, 2012).

On the government side, the problems arise from ignoring the nature of the government. Reviewing the behavior of the governments shows that in general, they act based on one of the following:

- two private-sector approaches; one based on the business pattern and the other, on the non-profit-making pattern;
- one mixed public-private approach where the government acts as a corporation with all commercial measures being used for the assessment of the condition of the business; and
- one inter-generation approach which is used only by the governments, where the government acts the same way as the individual who wishes to leave something as a bequest for his children.

There are three reasons for distinguishing the behavior pattern of the public sector from that of the private sector as follows:

- the absolute essentiality for the demonstration of public behavior and decisions in the most transparent way;
- the tendency of the governments to provide for them in the mid-term; and
- the presence of the government as the representative of the state.

In short, given that the existence of the government should be an element of raising the quality of living, all those institutions and organizations established by the government should also be targeted to help individuals enhance their quality of living (Boer, 1997). Hence market mechanism should be considered as one of such institutions that would help the individuals reach a better position in life. It is very natural to consider any relationship between the government and society in the same light. Given the above structure, the government would undertake three different functions:

- as a representative of all generations: here the government should be forward-looking.
- as a governing body running the business for the welfare of the living generation: here the government is a symbol of civil society; and
- as an entrepreneur acting to run its enterprise: here the government should be treated as an individual like any other private sector enterprise. The domain of government activity in this role is very restricted.

Studies indicate that where governments have attempted to mix their entrepreneurial function with other functions, the result has been a market mechanism malfunction. Perhaps due to observing this inconsistency, most often the final decision is the removal of one of the parties. On the other hand, where the markets have not functioned appropriately and have taken sides, instead of correcting their misconducts and rationalizing the mechanism, the market mechanism has been blamed and the governments have been asked to interfere to stop the market mechanism. Clearly, in such cases, the problem has been a lack of transparency, limited information, and so on (Allison, 2012).

In sustainable development, the government is a collective identity using all its power to prevent the failure of the market mechanism. The presence of the government should be associated with the facilitation of freedom of all private bodies. In other words, there is no conflict between the legal presence of the government in society and the efficiency of market economies. As Shafaeddin (2004) concludes none of these mechanisms is, however, perfect on its own and cannot succeed in the absence of an interaction with others or the complementary role played by non-price factors, namely the institutions, organizations, and the infrastructure.

The present analysis indicates that in social contracts between the government and the individuals of any society, the principle of improvement in the standards of living has been taken as a prerequisite. It is impossible to imagine that a rational society would vote for the deterioration of the welfare of the individuals forming that society. All institutions existing in society shall be utilized to prevent the government from reducing public welfare (Caballero, 1990).

Scrutinizing the classic arguments in defense of free economies indicates that the main demand of these is for the rule of law to be extended to economic activities as well. Ignoring this would lead to a situation where it would be impossible to understand why people like Adam Smith and John Stewart Mill have rejected the interference of the government in economic activities. Hence those who are not familiar with the foundations of the rule of law would easily confuse the real meaning behind the statement of such economists. An investigation into the history of economic thought indicates clearly that many economists after Adam Smith have also come to such misunderstandings regarding what has been the true meaning of his statements.

The rejection of government interference in economic activities has been announced in a situation when it was expected that such interference would lead to a loss of individual freedom. Palmer (2017) shows that according to the rule of law, the government has no right to violate individual freedom. Smith and many other economists who understood this point rejected the interference of the government. This means that the basis of their rejection has been the fear regarding the possibility of the violation of the rule of law. Smith and his followers have never claimed that the government should not enforce the law or should not enact new laws. They did not consider such acts as forcing people out of their freedom. Hence, they accepted the presence of the government for the enforcement of the law and the modification of the legal system (Bhattarai, 1999).

In the final analysis, there is a difference between those government policies that provide services to society and those that create coercion. Naturally, when the private sector does not show any tendency to get involved in economic activity, the government is permitted to enter as an entrepreneur (Fuerlinger et al., 2015). The natural conclusion is that the condition to accept the presence of the government in economic activity is that such a presence should not lead to a reduction in the quality of life of the individuals. If an economic activity by the government causes any reduction in the quality of life of the individuals, such an activity should be considered an illegal presence of a collective identity in the field of the activity of a private identity.

A similar conclusion should be drawn for the presence of the government in the legal system. When the law enacted by the government leads to a windfall gain or rent for a group of individuals or causes a distortion in the economic activities of the private sector, the government's right to enact that law should be restricted. As there is no general rule to state which law would cause such damage, it seems clear that before the enactment of laws, there should be a system to investigate if the distortion element is powerful or not. This leads us to the need to set an institution to observe the justice element in economic and financial laws. As stated in the United States Declaration of Independence, written in 1776, "All men are created equal, they are endowed by their Creator with certain unalienable Rights, among these are Life, Liberty, and the pursuit of Happiness. To secure these rights, Governments are instituted among men, deriving their just powers from the consent of the governed. Whenever any Form of Government becomes destructive of these ends, it is the Right of the People to alter or to abolish it, and to institute a new Government, laying its foundation on such principles and organizing its powers in such form, as to them shall seem most likely to affect their Safety and Happiness."

4 Government, Institutions, and Economic Development

According to the World Bank's World Development Report, the government and its institutions are the focal points for stimulating growth and development in an economy. Accordingly, an effective government is vital to the provision of rules and institutions that allow markets to flourish, enabling people to lead healthier and happier lives, and facilitating sustainable development. In addition, the report recognizes that people are both the means to and the end of development objectives. The Bank points out that countries with good economic policies and strong institutional capabilities have been growing faster - more than 3-4 percent average annual growth in GDP per capita -over the last two to three decades. On the other hand, in governments such as Afghanistan, Liberia, Somalia, Rwanda, and Cambodia, the institutional structures have been unable to provide even basic security for their citizens. Major recommendations by World Bank for accomplishing growth and democracy include an impartial judicial system, meritocracy-based bureaucracy, and international cooperation (Boer, 1997).

It is so important to reform institutions as a whole instead of using the piecemeal approach that the World Bank itself has been recommending until recently. States that had capable and effective institutions, such as Taiwan, Korea, New Zealand, Chile, Malaysia, Mexico, and Argentina, have been successful enough to reap the benefits of the Bank's structural adjustment programs. In mainstream economics, institutions are exogenous and price changes alter incentives, causing changes in the behavior of an economic agent. The increasing interest among scholars in 'New Institutional Economics' (NIE) and 'Endogenous Growth Theory', or 'New Growth Theory', has also led to new economic developments. Of course, institutionalists have been arguing for a long time that the government, culture, and historical process also matter in economics, and they all play an important role in the growth and economic development of a society.

We may notice that the pure laissez-faire economic policies that mainstream economic professionals have been prescribing for developing countries are not appropriate. Nor are these types of policies sufficient for managing the process of transition from central planning to a market-oriented economy.

What is fundamental is that an efficient government should be at the helm. An effective and credible government is key to the growth and development of an economy. The government's unique strengths are its power to tax, prohibit, punish, and require participation. Thus, for either good or ill intentions, the government, through its economic activities, shapes the environment for businesses and the rest of the economy. The government is not only a referee, but also a dominant player in the economic game, and if played well, the government's activities can accelerate the pace of the outcome of growth and development. As Pei (1999) states there is a direct relationship between good governance and sustained economic development. The most effective means of obtaining good governance is to develop institutions governing the society. Here, markets and society both benefit from the effective regulation of certain activities, in case they come from an efficient and capable government. A good start toward the institutional reform process can be made by strengthening central agencies for strategic policy formulation, introducing more transparency and competition, seeking more feedback from users about the delivery of services, and even working with labor unions on privatization programs that will enable workers to seek security in change, rather than seek security against change. Countries need markets to grow, but they need capable government institutions to grow markets (Acemoglu and Robinson, 2008).

Here a two-part strategy comes to mind. First, the government's activities should be focused on being matched with its capabilities. It should not do more than it can. Many governments often do more harm than good by trying to do too much with few resources and little capability. Getting governments better focused on the core public activities that are crucial to development will enhance their effectiveness. The second part of the strategy is to build an additional capability by reinvigorating public institutions. Under the heading of 'reinvigorating institutional capacity', attention is paid to building the foundations of an effective public sector, instituting formal checks and balances and controlling corruption, bringing the state closer to the people, in particular by decentralization, and to cooperating in providing collective goods on an international basis. Reinvigorating the state's capability is only possible if the incentives under which states and state institutions operate are changed. In other words, an essential ingredient to capacity building is the transformation that is generated and sustained over time from within; transformation of this kind goes beyond performing tasks to changing mindsets and attitudes. Few people will deny the importance of, for example, a strong governmental capacity for formulating and coordinating policies, motivated and capable staff, curtailing rent-seeking and corruption, transparency of rules, and bringing the government closer to the people. The state and its institutions are part of the society and as such, interact with other political, social, and economic forces.

The functions of government are classified along a continuum, from activities that will not be undertaken at all without government intervention to activities in which the government plays an active role in coordinating markets or redistributing assets. Two main categories of functions are addressing market failure and improving equity. In addressing market failure, the government's minimal function is to provide pure public goods: defense, law and order, property rights, macroeconomic management, and public health. At the intermediate level, the functions of the government are the management of externalities, such as pollution, the regulation of monopolies, and the overcoming of imperfect information by, for example, consumer protection. More activist functions pertain to the coordination of private activity, for example, in promoting markets through active industrial and financial policies. To improve equity, the minimal functions of governments are considered to be disaster relief and anti-poverty programs. Providing social insurance is considered to be an intermediate function and asset redistribution, an activist function. Thus, the clear suggestion is that only governments with strong institutional capabilities can assume more activist functions.

Not only what the government does but also how the government does it is important. The quality of a country's institutions, i.e., its institutional capability, has a major impact on its economic and social development. Especially important are providing a macro- and microeconomic environment that sets the right incentives, ensuring the provision of basic education, health care, and physical infrastructure, and providing the institutional infrastructure, such as property rights, rules, peace, law, and order. The benefits of 'good policies' are magnified where the institutional capability is higher, where policies and programs are implemented more efficiently, and where citizens and incentives have greater certainty about the government's future actions. Thus, not only improving policies but also strengthening the institutional environment these policies have to work within are determining in economic development (Boer, 1997). Institutions that maximize market freedom and most strongly protect private property rights are the best for economic development.

But it should be noted that the protection of property rights requires an expanded role of state authority. Individuals and groups sacrifice a degree of freedom to ensure state protection; however, there is a risk that states which have the power to enforce property rights may use that power to expropriate property too. Thus, property rights are by no means sufficient to spur economic growth and must be balanced by institutions that limit the extractive capacity of state power. These typically involve independent parliaments and judiciaries. Democratic institutions strongly contribute to this process. Therefore, institutions determine the extent to which those in power can expropriate the economy's resources to their private advantage. Unequal institutions strongly limit development by reducing the capacity of individuals to access resources, expand production, and increase their incomes. A comparative analysis of the development trajectories of countries indicates that institutions that benefit elites and allow their appropriation of resources and products have perpetuated underdevelopment (Ferrini, 2012). Institutions that maximize market freedom and strongly protect private property rights are the best for economic development. Markets and private property are essential institutions for economic prosperity.

5 Private Sector and Institutions

Given the need for making sure that the laws enacted by the government are not disruptive to the economy, the next point is to see who should observe the laws and at which stage this should be done. This is where the role of the private sector and corporations in the formation of collective bodies becomes essential (McPherson, 2005).

From a historical point of view, the private sector's approach to society has undergone considerable changes. This has come about through opening the doors of private institutions and organizing a structure whereby the institutions can join various associations in their collective body identity. Given this, the institutions are now able to claim a say in the decision-making process of their country. Greif (1992) asserts that private sector associations provide security for the business environment. This is done by helping the states to solve the shortcomings and inabilities of their legal and judicial system. Hirschman (1970) believes that associations, as the voice of business owners, bring the objections and suggestions of the private sector to the ears of policymakers and thus play a fundamental role in improving the quality of government decisions. These associations follow the demands of their members, prevent the adoption and implementation of harmful decisions, and play a role in the implementation of beneficial policies. Private sector associations thwart the spread of discontent and the development of the informal sector, promote social cohesion, and shoulder part of the government's burden.

According to Evans (1995), the government can be a platform for development if its relationship with society is organized through various associations. He contends that private sector associations are the tools of the developmental state. These associations can hamper corruption in the government and prevent wrong decisions by providing extensive information about real economic conditions. Without economic associations, the government's organized communication with society is ruled out, and the government cannot continuously obtain the necessary information from the social demands and society's realities. Relying on civil society and group institutions facilitates the gathering and dissemination of information and accelerates collective movement. Evan's view is based on the fact that the government must interact with the private sector while maintaining its independence. Thus, the supporters of business associations believe that associations can play the role of the voice of the private sector and by reflecting the problems and opinions of the private sector, to the government, they can be useful in improving the quality of government decisions, and on the other hand, by taking effective measures, they can play an important role in improving the business environment.

In general, although some have considered associations as an example of rent-seeking and the pursuit of group interests over the interests of others (Olson, 1982; Becker, 1983; Haggard et al., 1997; Patty, et al., 2012), many theorists advocate the participation of the private sector in setting laws and activities and consider the private sector and its associations to be complementary to the market institution and the government, which have tasks such as creating information networks, establishing dispute resolution councils, having dialogues with the state, defining and promoting standards, etc.

It is useful to emphasize that private institutions are increasingly being recognized as a major force in development. They drive economic growth through investment, employment and business creation, innovation and knowledge transfer, and other multiplier effects from their operations and activities. Ensuring that this growth is likely to contribute to long-term poverty reduction, however, requires private companies to include the poor as producers, suppliers, employees, and consumers. Under the right circumstances, public-private partnerships that are based on the identification of complementary expertise and shared commercial and development interests are also an important tools that can harness the private sector's contribution to such inclusive growth (Davies and Callan, 2015). On the other hand, public institutions create the conditions and rules within which sustained and inclusive economic growth driven by the private sector is possible. Beyond this enabling environment, strong public sector capacity is needed to ensure that authorities can deliver services and carry out their regulatory and other responsibilities in a transparent manner that strengthens the accountability ties between them and their citizens. According to Hope (2009), capacity development is an important aspect of the creation of capable states with demonstrated good governance.

6 Implications for Iran

Institutions may differentiate societies considering their formal methods of collective decision-making (democracy versus dictatorship) or their economic institutions (security of property rights, entry barriers, and the set of contracts available to businessmen). They may also differentiate societies because a given set of formal institutions are expected to and do function differently; for example, they may differentiate a democratic society from another because the distributions of political power lie with different groups or social classes, or because in one society, democracy is expected to collapse while in the other, it is consolidated.

In Iran, the private sector has shown a long-term tendency to obtain funds from traditional sources and to keep the institutions as restricted as possible. There is very little tendency towards opening the doors and organizing a system for conjoining the institutions. The Iranian private sector has shown little desire to accept the membership of other organizations in its shape of collective identity. Hence there are few instances where the private sector can join the public sector in decision-making and the process of formulation of rules, regulations, and laws. The result is the enactment of laws that are against the common interest of various private sector institutions, which in turn leads to the instability of the economy. This is why one of the largest uncertainties about the Iranian economy comes from the uncertainty regarding economic policies. The Iranian private sector has always remained very isolated with little share in the decision-making process of the country. This is because the state sector (state-owned and semi-state-owned companies) accounts for approximately 80% of Iran's economic activity, while the private and cooperative sectors account for 20%. Iran is unique in the sense that its state sector is much larger than its governmental sector. Many state-owned enterprises belong not to the government but to economically strong religious, revolutionary, and military foundations (such as "Bonyads"). These enterprises are directly or indirectly controlled by the Supreme Leader and enjoy many privileges, such as tax exemptions and exclusive access to lucrative government contracts (BTI, 2022).

It is possible to estimate the cost of such isolation both in micro and macroeconomic terms. One specific example is the loss of Iranian enterprises that had received foreign exchange from the Iranian banking system before the massive devaluation of the Iranian Rial. Very sharp devaluations of the national currency in Iran occurred in three distinct years, namely 1374 (1995/96), 1381 (2002/03), and 1397 (2018/19). Here the private sector players who had not settled the purchase before the devaluation was forced to pay back according to the new rates of exchange. This caused a great financial burden on this group and created a considerable rent for all those who had settled their debt before the devaluation. Had the private institutions had a say in the legal decisions-making of the country, no such loss or rent would have ever occurred. This is what has led to the emergence of systems in the world today, allowing public participation in economic decision-making. This development is tangible in developed countries but has not yet been implemented in developing countries. Therefore, no institution, including the government, can make changes in society through unilateral decisions that only benefit certain small groups of people. If the presence of different groups in society in major decisions is possible, the possibility of creating a rent is minimized.

Another example where the private-sector collective bodies could have created great stability is the case of the industrial and financial decision-making process. In the Money and Credit Council of the country, the only collective identity of the private sector is Iran Chamber of Commerce, Industries, Mines, and Agriculture. In addition, all the members of this council are the representatives of the government and, therefore, the head of the

Chamber, as the representative of the private sector in Iran with a single vote, cannot influence the decision-making process. Even then, due to the large underground economy in Iran, this collective identity would not be considered to be either a collective identity representing the entire private sector or the entire business sector of the country.

Of course, all national economies have an informal sector but in the case of Iran, more than one-third of the economy is thought not to be accounted for, which complicates accurate measurement of the national and per capita income. Economies that suffer from phenomena such as underdevelopment and poor governance usually provide a platform for the emergence of an underground economy. Iran's informal sector, however, has mainly grown due to external sanctions and the complex regulatory environment, which leads to unlicensed activities and tax evasion. Beyond sanctions, the main drivers of the growth of the informal sector are smuggling, the black market, and corrupt practices. Ironically, there are also legal activities that can be considered part of the informal economy. In response to social restrictions, many businesses opt to operate in the private sphere away from the government and state authorities. The most recent figures and finance estimates published by the Ministry of Economic Affairs and Finance state that 36.5% of Iran's economic activity is attributed to the informal sector (Khajehpour, 2020).

Another example of a decision-making body is the Government Economic Commission, one of the seven specialized commissions under the Secretary of the Cabinet, which is responsible for preparing economic bills for submission to the Cabinet. In all the main economic commissions of the government, the head of the Iran Chamber of Commerce, Industries, Mines, and Agriculture is present, and in the sub-commissions, his deputy is as well. These people have no right to vote.

Another decision-making council in the Iranian economy is the Economic Council. After the Islamic Revolution of Iran, the status of the Economic Council has been reduced from a governing identity that protected intergenerational interests to a state council, which is only the executive branch of the government. The Economic Council was formed as per Article (2) of the Budget Law approved in 1351 (1972/73). To guide and coordinate the economic affairs of the country, a council composed several ministers and the Governor of the Central Bank of Iran shall be formed under the chairmanship of the President. Decisions on the main economic issues of the country will be made in this council. All members of the council are state-affiliated and only the chairman of the Iran Chamber of Commerce, Industries, Mines, and Agriculture is invited to represent the private sector without the right to vote. Furthermore, a member of the Iran Chamber of Commerce, Industries, Mines, and Agriculture is invited to all specialized commissions of the Islamic Consultative Assembly, should the need arrive. This presence is without the right to vote. At the same time, the intellectual and practical independence of the head of the Chamber of Commerce of Industries and Mines of Iran is questionable.

In addition, the Law on Continuous Improvement of Business Environment was approved in 2012, the 2nd and 3rd Articles of which obliged the government and executive institutions to review the recommendations of the Iran Chamber of Commerce, Industries, Mines, and Agriculture as well as employers and workers and, if needed, hold meetings with them. Accordingly, the basis for the permanent formation of the dialogue council between the government and the private sector at the provincial and national levels was established. However, neither then nor later did any of the governments ever adhere to this law and nothing happened in practice. In effect, despite the legal basis, the executive body does not believe in interacting with the private sector to formulate laws and regulations at the country level, and the meetings of this council have not been able to lead to the effect desired by the legislator and the private sector.

All in all, the need for institutional change in this collective identity is apparent. Here the private sector of the country would suffer on the macro level as the decisions are open to the creation of rent and becoming unjust.

7 Concluding Remarks

The bond between society and the state is a social contract, the existence of which leads to the loss of some individual freedom on the one hand and the acquisition of some collective benefits, on the other. The evaluation of what each individual loses, as opposed to what the collective identity provides, is ultimately indicative of the desirability of the existence of a social contract. The existence of society finds meaning only when society can be considered as a tool to empower individuals to achieve what they are not able to gain through their individual identity. In this context, society should be considered an essential tool for perfecting the capabilities hidden in the core of human existence. In other words, free will or individual identity leads to the formation of a collective identity, which will in turn uplift the quality of life for each individual. In this regard, maintaining freedom within a law-based structure provides credibility and legitimacy to collective identity.

The existence of the government and collective institutions should increase public welfare as well as the quality of life. Institutions created by collective identity must cooperate to improve the quality of life for individuals. Any relationship between the government and the society must be based on the acceptance of the principle specifying the improvement of the society. Consequently, the social contract between the state and the individual identity, the principle of the improvement of the quality of life, is a precondition. Therefore, it is inconceivable that the majority of the people in the society would vote for a decline in their quality of life or ask for their standard of living to decrease. On this basis, all institutions that can be used in their true sense to improve communication among individual identities should, as a rule, be used by collective identity more effectively, to satisfy the interests of the individual identities.

The economic theory of sustainable development contains freedom of various aspects as the most inherent element of development. This freedom obliges individual identities to organize themselves in collective identities and to represent their preferences in various subjects and at different levels.

Full representation only takes place when the private sector can organize itself into different collective identities in collaboration with various public sector collective identities to decide about economic issues. Only in this way would the government stand in its proper position and therefore in economic issue the element of windfall gains, rents, and all sorts of unjust redistribution of income and wealth would be controlled.

As a result, private sector associations have no place in macroeconomic decision-making in Iran. Without these institutions, including the Iran Chamber of Commerce, Industries, Mines, and Agriculture, guilds and cooperatives, which are the parent associations of the private sector and cooperatives in the country, the government's organized communication with the society is ruled out, and the government cannot continuously obtain the necessary information from the social and economic realities of the society which is the basic condition of a developmental and democratic state. This situation can be observed in the case of social associations and civil institutions in Iran which will be studied in the future.

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